

VZCZCXRO9836
PP RUEHCN RUEHGH RUEHVC
DE RUEHSH #0127/01 1980357
ZNY CCCCC ZZH
P 170357Z JUL 09
FM AMCONSUL SHENYANG
TO RUEHC/SECSTATE WASHDC PRIORITY 8777
INFO RUEHOO/CHINA POSTS COLLECTIVE PRIORITY
RUEKJCS/DIA WASHDC PRIORITY 0139
RUEAIIA/CIA WASHDC PRIORITY 0190
RHHJJAA/JICPAC PEARL HARBOR HI PRIORITY 0067
RHEHAAA/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000127

SIPDIS

DEPARTMENT FOR EAP/CM, INR

E.O. 12958: DECL: 07/17/2019

TAGS: [CH](#) [ECON](#) [PGOV](#) [PREF](#) [PREL](#) [RS](#)

SUBJECT: XI JINPING'S JOURNEY TO THE EAST

Classified By: Consul General Stephen B. Wickman. Reasons
1.4(b/d).

11. (C) Summary. On July 8-10 Chinese Vice-President Xi Jinping paid a stealthy and unusual visit to Dalian and Yingkou, two key areas of strength and support for First Vice Premier Li Keqiang. The visits were characterized by witnesses as "unfriendly." We also learned that two major Liaoning State-Owned Enterprises (SOEs) are under substantial pressure to merge with centrally- owned SOEs. Such mergers would serve to dilute Li Keqiang's power base in Liaoning. Several contacts intimated that a key Li ally, Lu Lin, may have struck a deal with Xi's supporters. Chongqing Party Secretary and princeling Bo Xilai's supporters, were in Dalian coordinating Bo's real estate interests. Bo's supporters appeared to be allied with Li's. End summary

12. (C) According to long-standing, reliable contacts in Dalian's port, Vice-president Xi Jinping paid a brief visit July 8-10 to Dalian and Yingkou, two of the five points in Liaoning's "Five Points-One Line" economic development area. The visit was unusual for a number of reasons. First, no local or provincial press coverage was allowed for the visits.. Additionally, &in-house8 photographers who normally record visits to the Port for display in the reception center, had their cameras seized and the memory cards removed. Although the cameras, absent their memory cards, were returned, the photographers were told to depart the area and not to discuss the events with anyone. Our contacts said one local reporter insisted that he had the right to cover events at the port. In response, Mr. Xi's handlers seized the reporter's press credential and destroyed it on the spot, telling the reporter that he no longer had the right to cover any events whatever.

13. (C) Contacts present for the Dalian event reported that, when Mr. Xi arrived at the meeting room, Xi's staff directed everyone but Dalian Port Authority (PDA) Chairman Sun Hong to leave. Again, the departing staff were instructed not to discuss the events. After a private meeting with the PDA Chairman, Mr. Xi and his entourage departed the area. Contacts told Econoff there were none of the customary dinners or niceties. Mr. Xi left and traveled by motorcade to the airport. According to various reports, every street between the airport and the Port of Dalian was completely closed to normal traffic for both the arrival and departure of Mr. Xi's group. Contacts told Econoff it was odd that, at least to their knowledge, Xi did not meet with Dalian Party Secretary Xia Deren.

14. (C) One contact in Dalian said that Mr. Xi's visit to Yingkou's Bayuquan Development Zone was similarly strange, with a no-press, closed-door meeting with the Development Zone Director and one with the Chairman of the newly opened AnSteel plant. The source said that he had also heard that Xi visited Anshan, but that he had been unable to confirm this due to a lack of confidants there...

SOE Mergers:

¶5. (C) Our contacts said that another brewing power struggle is the pressure on two high profile Liaoning SOEs to complete mergers with nationally-owned SOEs. BenSteel continues to resist a forced marriage with centrally owned AnSteel. BenSteel was, until the recent economic downturn, Liaoning's most profitable business. While the merger was announced in 2005, there is absolutely no cooperation between the companies, and Li Keqiang's help has facilitated the resistance for several years.

¶6. (C) Similarly, Huachen Motors is trying to sidestep a renewed takeover attempt by First Auto Works, according to our industry contacts. The company successfully resisted a previous attempt near the end of Li's tenure in Shenyang, reportedly with direct assistance from Li. However, company officials recently told Econoff the company has been unable to secure assistance from "anyone in Beijing," and is taking the unusual approach of trying to ward off the merger by selling off the only truly valuable asset controlled by the group, the publicly traded Brilliance Automotive Company. Brilliance will begin talks next week to negotiate sale of a controlling interest to an American investor. We were told that Huachen Chairman, Qi Yumin, previously close to Bo Xilai and currently a Li ally, will not be involved in the talks, primarily to afford him deniability in the event that the deal is not well-received should word of the talks leak.

¶7. (C) In the midst of these events, our contacts said several people close to Bo Xilai are working behind the scenes, apparently in concert with those closely tied to Li. These people control several major real estate developments in Dalian and are major shareholders in the PDA Group. One of them warned Econoff that another contact, Mr. Lu Lin,

SHENYANG 00000127 002 OF 002

Director of the Dalian Bonded Port Area, had suddenly become "very ambitious" and was making "new friends." Lu is a rapidly rising young leader, who was appointed to his position by Li Keqiang. The implication was that Lu may have forged a new relationship with Xi. Lu's lead assistant, Luan Haitao has recently been spending a great deal of time at the Central Party School, which our sources said is very close to Xi.

Comment:

¶8. (C) These visits are highly unusual and may be indicative of a power struggle between Xi and First Vice-premier Li Keqiang. The "Five Points-One Line" plan is Li's personal project and a key source of both his income and support. The PDA Chairman has long been close to Li, as has the Director of Bayuquan Development Zone. PDA is by far the most successful company in the region and has been extending its influence throughout the region, with major investments in Shenyang, Harbin, Dandong and Jinzhou. That Xi would be surreptitiously visiting Li's key supporters for closed door meetings that were reportedly unpleasant (one witness described the PDA Chairman as looking "like a ghost" after the meeting) fits in with other indicators of a developing tussle.

WICKMAN